

Add diversity and opportunity to your Canadian equity exposure

What's the strategy?

The Mid Cap Canadian Equity (GWLIM) portfolio strategy invests primarily in mid-sized Canadian companies, and to a lesser extent, smaller capitalization Canadian companies with the potential for high growth and long-term capital appreciation.

What's the approach?

It follows a growth-oriented management style that blends top-down macro-analysis with bottom-up fundamental stock research. The portfolio manager seeks to identify industry risks, competitive opportunities and macro trends to influence sector allocations. This is done alongside disciplined fundamental research to identify companies that are positioned to deliver strong results, such as having superior management, the flexibility of a small- or mid-cap company to adapt to changing economic conditions, and a competitive product or service advantage relative to industry peers.

Why invest in this portfolio strategy?

This portfolio can be an excellent diversifier from other core and mainstream Canadian equity portfolios. It tends to hold fewer “big banks” and has a broader opportunity set relative to large-cap Canadian equity portfolios. This portfolio strategy offers a portfolio of companies with higher growth potential and the opportunity to participate in strong price appreciation at earlier stages of the investment lifecycle, as many mid-cap companies graduate into large-cap companies.

Typical portfolio characteristics

Here is what you can expect to see from the Mid Cap Canadian equity strategy:

- Stronger growth and growth momentum metrics than the broad Canadian market index, the S&P/TSX Composite Index. Higher volatility than a large-cap core Canadian equity portfolio, but with greater opportunity for growth
- Good diversification: exposure to at least 8 of the 11 sectors and an average of 50-90 holdings. Flexibility to hold up to 30% U.S. mid- to small-cap holdings, which provides the opportunity to add diversification and seek out attractive opportunities often not available in the Canadian market

Strategy snapshot

Asset class

Equity

Inception date

1997

Assets in mandate

\$1,099.0 million

Benchmark

S&P/TSX Completion Index

Investment team

GWL Investment Management

Portfolio manager(s)

Bryan Shearer
Vice-President, Equities

About GLC

GLC Asset Management Group Ltd. (GLC) is a leading investment management firm that manages more than \$55 billion in assets.

GLC has 5 investment management divisions:

- GWL Investment Management
- London Capital Management
- Laketon Investment Management
- Portico Investment Management
- Global Multi-Asset Strategy team (including Portfolio Solutions Group)

Each division has a distinct investment approach that offers deep expertise within specialized areas of portfolio management, bringing unique perspectives to navigating capital markets through varying cycles.

As at June 30, 2020

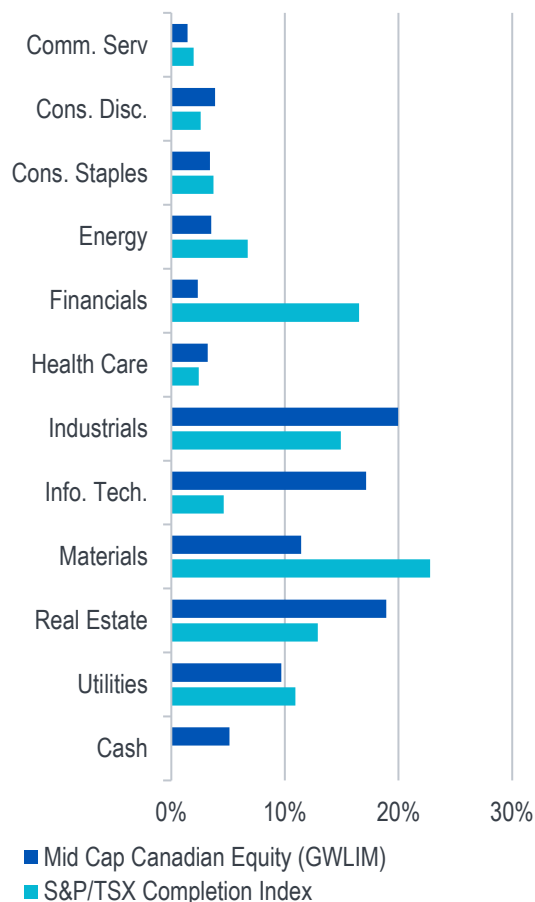
Portfolio attributes

Key attributes	Portfolio ¹	Index ²
Market Cap. (Cdn Holdings)	3.1	6.0
Market Cap. (US Holdings) ³	17.5	5.8
P/E Curr. Yr. Median	52.7	114.7
P/B Curr. Yr.	3.5	2.1
EPS Curr. Yr. Median Rev 3M	-19.2	-27.7
Qtly. Earn. Mom.	-2.0	0.1
Div. Yield	1.5	3.0
# of Equity Holdings	54	162
U.S. Equity Weight	7.0	-

Major equity holdings %

Security	Sector	Portfolio Weight ¹
Kinaxis Inc	Information Technology	8.3
Boyd Group Services Inc.	Industrials	5.3
Borex Inc. Class A	Utilities	4.8
Morneau Shepell Inc.	Industrials	4.1
Northland Power Inc	Utilities	3.9
Killam Apartment Real Estate Invst Trust	Real Estate	3.4
Enghouse Systems Ltd	Information Technology	3.2
Cyrusone Inc. REIT	Real Estate	3.0
Jamieson Wellness Inc.	Consumer Staples	2.9
Morguard Corp	Real Estate	2.8
Total		41.6

Sector Allocation %



Source: GLC, Bloomberg, S&P | 1. Fund: LL Mid Cap Canadian Equity Fund (GWLIM) | 2. Index: S&P/TSX Completion Index 3. S&P 400

Portfolio manager's quarterly commentary

As at June 30, 2020

Market review

Global equity markets bounced back sharply, posting one of the strongest and quickest recoveries in history. Stocks closed in on their previous all-time highs set prior to the coronavirus crisis due to unprecedentedly large monetary and fiscal support from world governments and central banks, improving economic data in May and June and reopening global economies. The S&P/TSX Composite Index surged 17.0% (total return) during the quarter – the second largest quarterly gain in over a decade. Canadian mid-cap stocks outperformed their large-cap counterparts in the second quarter. The S&P/TSX Completion Index spiked 25.5% (total return). All but one of the 11 sectors finished in positive territory with the information technology, materials and consumer discretionary sectors being the best performers. The materials sector benefitted from a strong rally in precious metals, particularly by gold stocks that soared over 50% in the period. Communication services was the lone sector to produce a negative return.



Portfolio performance

During a period of equity market recovery, the portfolio delivered a strong double-digit positive return that matched the S&P TSX Completion and Mid-Cap Composite Indexes, which both returned 25.47% on a gross return basis during Q2 2020. The fund was well ahead of the S&P/TSX Composite Index return of 21.5%. Fund outperformance came as a result of strong returns in some of our most favoured names, including those in the Utilities, Healthcare and Industrials sectors. In particular, a large overweight position in Information Technology sector contributed significantly to fund performance. The fund's largest detractor was its underweight in the Materials sector, specifically in gold.

Portfolio activity

The portfolio held higher cash levels entering the quarter as a result of eliminating a few weaker positions during Q1. Early in Q2, we took advantage of the severe market correction and were able to add back to preferred names whose valuations had improved. We also allocated capital to three new positions, all of which are expected to benefit from evolutions in business as a result of COVID-19. In Canada, we initiated a position in ATS Automation, which is expected to benefit from the repatriation of manufacturing supply chains across all sectors, but specifically within medication and PPE equipment. In the U.S. we invested in two technology names, Anaplan and Smart Sheet Inc., both of which are expected to benefit from the increasing demands from employees working from home. We ended the quarter with cash levels around 5%, down from around 8% at the start of the quarter.

Positioning & outlook

We believe the market has risen back too quickly and priced in a much stronger economic outlook than we believe will occur, especially in Canada where household debt levels are at alarming levels. The economic consequences of recovery spending programs, while good in intention, will also serve to severely hamper the Canadian economy for many years to come though lower productivity and significantly higher tax rates. We think sell-side estimates are too high for the second half of 2020 and for 2021 and expect numbers to be moved down as we move through the rest of the year. However, we feel there are, and will be, tremendous stock-specific opportunities for investors that can be captured through sticking to our disciplined process of strong and intelligent active management. Our fund does not invest by following the short-term direction of the market. We're aware there may be times within the short term when we will underperform the market as cyclicals rally, but we always keep longer-term performance in mind. We continue to position our fund in names that benefit from markets, which have strong and sustainable growth rates, even with our pessimistic outlook for the economy and the market as a whole. Our recent fund returns have served to reinforce our belief in our approach that has at times significantly outperformed both the TSX Completion Index and the S&P/TSX Composite Index.

For internal use only. There is no guarantee that investment objectives, risk or return targets discussed in this document will be achieved. The opinions expressed in this document are those of GLC Asset Management Group Ltd. and are subject to change. No part of this document may be reproduced or redistributed in any form, or referred to in any publication, without express written permission of GLC Asset Management Group Ltd. Information contained in this document has been obtained from sources believed to be reliable, but not guaranteed. Furthermore, there can be no assurance that any trends described in this document will continue or that forecasts will occur because economic and market conditions change frequently. The information contained in this document should not be considered a recommendation or offer to purchase or sell any particular investment. Make your investment decisions wisely.